

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with Allegiance Telecom, Inc.'s 2001 consolidated financial statements previously filed on Form 10-K. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K.

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and Stockholders of Allegiance Telecom, Inc

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets of Allegiance Telecom, Inc. and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2001, 2000, and 1999 included in this Form 10-K and have issued our report thereon dated February 19, 2002. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II—Valuation and Qualifying Accounts is not a required part of the basic consolidated financial statements but is supplementary information required by the Securities and Exchange Commission. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Dallas, Texas  
February 19, 2002

# SCHEDULE II

## ALLEGIANCE TELECOM, INC. VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (dollars in thousands)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS	BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
ALLOWANCE FOR DOUBTFUL ACCOUNTS					
Year Ended December 31, 2002	\$29,621	\$66,224	\$1,049	\$(82,409)	\$14,485
Year Ended December 31, 2001	\$12,638	\$41,600	\$5,626	\$(30,243)	\$29,621
Year Ended December 31, 2000	\$7,800	\$25,914	\$555	\$(21,631)	\$12,638

## INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3 1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3 1 to Allegiance Telecom, Inc 's Form 10-Q for the period ended June 30, 1998)
3 2	Certificate of Correction to Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3 2 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 1998)
3 3	<i>Certificate of Amendment to Amended and Restated Certificate of Incorporation</i> (incorporated herein by reference to Exhibit 4 1 to Allegiance Telecom, Inc 's Form 10-Q for the period ended September 30, 2001)
3 4	Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3 2 to Allegiance Telecom, Inc 's Form 10-Q for the period ended June 30, 1998)
4 1	Indenture, dated as of July 7, 1998, by and between Allegiance Telecom, Inc and The Bank of New York, as trustee (including the Form of Notes) (incorporated herein by reference to Exhibit 4 1 to Allegiance Telecom, Inc 's Registration Statement on Form S-1, as amended, Registration No 333-69543)
4 2	Indenture, dated as of February 3, 1998, by and between Allegiance Telecom, Inc and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4 2 to Allegiance Telecom, Inc 's Registration Statement on Form S-4, as amended, Registration No 333-49013 (the "Form S-4 Registration Statement"))
4 3	Form of 11 <sup>3</sup> / <sub>4</sub> % Senior Discount Notes (incorporated herein by reference to Exhibit 4 3 to the Form S-4 Registration Statement)
4 4	Collateral Pledge and Security Agreement, dated as of July 7, 1998, by and between Allegiance Telecom, Inc and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4 4 to Allegiance Telecom, Inc 's Registration Statement on Form S-1, as amended, Registration No 333-69543)
10 1	Stock Purchase Agreement, dated August 13, 1997, between Allegiance Telecom LLC and Allegiance Telecom, Inc (incorporated herein by reference to Exhibit 10 1 to the Form S-4 Registration Statement)
*10 2	Termination of Board Voting Agreements, dated February 14, 2003, among Allegiance Telecom, Inc , Royce J Holland, the Royce J Holland Family Limited Partnership, Thomas Lord (individually and on behalf of Brian Lord and Colin Lord), Victoria Lord, C Daniel Yost, Anthony Parella, Frontenac VII Limited Partnership, Frontenac Masters VII Limited Partnership, Madison Dearborn Capital Partners II, L P , Morgan Stanley Capital Partners III, L P , MSCP III 892 Investors, L P and Morgan Stanley Capital Investors, L P
10 3	Securityholders Agreement, dated August 13, 1997, among Allegiance Telecom LLC, Allegiance Telecom, Inc and certain venture fund and management investors (incorporated herein by reference to Exhibit 10 2 to the Form S-4 Registration Statement)
10 4	Amended and Restated Registration Agreement, dated September 13, 1999, among certain stockholders and Allegiance Telecom, Inc (incorporated herein by reference to Exhibit 99 4 to Allegiance Telecom, Inc 's Form 8-K filed with the SEC on September 22, 1999)
10 5	Warrant Registration Rights Agreement, dated as of January 29, 1998, by and among Allegiance Telecom, Inc and Morgan Stanley & Co Incorporated, Salomon Brothers Inc, Bear, Stearns & Co Inc and Donaldson, Lufkin & Jenrette Securities Corporation, as initial purchasers of the 11 <sup>3</sup> / <sub>4</sub> % Senior Discount Notes (incorporated herein by reference to Exhibit 10 11 to the Form S-4 Registration Statement)

EXHIBIT NO	DESCRIPTION
10 6	Warrant Agreement, dated February 3, 1998, by and between Allegiance Telecom, Inc and The Bank of New York, as Warrant Agent (including the form of the Warrant Certificate) (incorporated herein by reference to Exhibit 10 9 to the Form S-4 Registration Statement)
+10 7	Allegiance Telecom, Inc 1997 Nonqualified Stock Option Plan (incorporated herein by reference to Exhibit 10 4 to the Form S-4 Registration Statement)
+10 8	Allegiance Telecom, Inc 1998 Stock Incentive Plan (incorporated herein by reference to Exhibit 10 6 to Allegiance Telecom, Inc 's Registration Statement on Form S-1, as amended, Registration No 333-53479)
+10 9	First Amendment to the Allegiance Telecom, Inc 1998 Stock Incentive Plan (incorporated herein by reference to Exhibit 10 7 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 1998)
+10 10	Second Amendment to the Allegiance Telecom, Inc 1998 Stock Incentive Plan (incorporated herein by reference to Exhibit 10 8 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 1999)
+10 11	Third Amendment to the Allegiance Telecom, Inc 1998 Stock Incentive Plan (incorporated herein by reference to Exhibit 10 9 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 2000)
+10 12	Fourth Amendment to the Allegiance Telecom, Inc 1998 Stock Incentive Plan (incorporated herein by reference to Exhibit 10 10 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 2001)
+10 13	Fifth Amendment to the Allegiance Telecom, Inc 1998 Stock Incentive Plan (incorporated herein by reference to Exhibit 4 12 to Allegiance Telecom, Inc 's Form S-8 filed with the SEC on July 8, 2002)
*+10 14	Sixth Amendment to the Allegiance Telecom, Inc 1998 Stock Incentive Plan
+10 15	Amended and Restated Executive Purchase Agreement, dated December 13, 1999, between Allegiance Telecom, Inc. and Royce J Holland (incorporated herein by reference to Exhibit 10 9 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 1999)
+10 16	Amended and Restated Executive Purchase Agreement, dated December 13, 1999, between Allegiance Telecom, Inc and Thomas M Lord (incorporated herein by reference to Exhibit 10 10 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 1999)
+10 17	Amended and Restated Executive Purchase Agreement, dated December 13, 1999, between Allegiance Telecom, Inc and C Daniel Yost (incorporated herein by reference to Exhibit 10 11 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 1999)
+10 18	Form of Executive Purchase Agreement among Allegiance Telecom LLC, Allegiance Telecom, Inc and each of certain management investors (incorporated herein by reference to Exhibit 10 8 to the Form S-4 Registration Statement)
10 19	Secured Promissory Note of G Clay Myers dated December 6, 1999 and Amended and Restated Pledge Agreement between G Clay Myers and Allegiance Telecom, Inc dated June 7, 2001
10 20	Full Recourse Promissory Note of Anthony J Parella dated November 1, 2001 and Pledge Agreement between Anthony J Parella and Allegiance Telecom Company Worldwide dated November 1, 2001
*+10 21	Form of Restricted Stock Agreement dated June 7, 2002, between Allegiance Telecom, Inc and each of Royce Holland, Dan Yost, Tom Lord, Tony Parella, Mark Tresnowski and other senior officers

EXHIBIT NO.	DESCRIPTION
*+10 22	Form of Amendment No 1 to Allegiance Telecom, Inc Restricted Stock Agreement dated November 5, 2002, between Allegiance Telecom, Inc and each of Royce Holland, Dan Yost, Tom Lord, Tony Parella, Mark Tresnowski and other senior officers
*+10 23	Form of Amendment No 2 to Allegiance Telecom, Inc Restricted Stock Agreement dated February 24, 2003, between Allegiance Telecom, Inc and each of Royce Holland, Dan Yost, Tom Lord, Tony Parella, Mark Tresnowski and other senior officers
*+10 24	Form of Restricted Stock Agreement dated June 7, 2002, between Allegiance Telecom, Inc and each of Tony Parella, Mark Tresnowski and other officers
*+10 25	Form of Restricted Stock Agreement dated June 7, 2002, between Allegiance Telecom, Inc and each of Reed Hundt and Andrew Lipman
*+10 26	Form of Amendment No 1 to Allegiance Telecom, Inc Restricted Stock Agreement dated September 12, 2002, between Allegiance Telecom, Inc and each of Reed Hundt, Andrew Lipman, Tony Parella, Mark Tresnowski and other officers
*+10 27	Form of Amendment No 2 to Allegiance Telecom, Inc Restricted Stock Agreement dated February 28, 2003, between Allegiance Telecom, Inc and each of Reed Hundt, Andrew Lipman, Tony Parella, Mark Tresnowski and other officers
10 28	Form of Indemnification Agreement by and between Allegiance Telecom, Inc and its directors and officers (incorporated herein by reference to Exhibit 10 13 to the Form S-1 Registration Statement)
10 29	Master Procurement Agreement, dated April 28, 2000 between Allegiance Telecom, Inc and Lucent Technologies Inc (incorporated herein by reference to Exhibit 10 15 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 2000)
10 30	Credit and Guaranty Agreement, dated February 15, 2000, among Allegiance Telecom, Inc , Allegiance Telecom Company Worldwide, certain subsidiaries of Allegiance Telecom, Inc , various lenders, Goldman Sachs Credit Partners L P , a Syndication Agent and Sole Lead Arranger, Toronto Dominion (Texas), Inc , as Administrative Agent, and BankBoston, N A and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents (incorporated herein by reference to Exhibit 10 16 to Allegiance Telecom, Inc 's Form 10-K for the period ended December 31, 1999)
10 31	First Amendment, dated November 27, 2002, among Allegiance Telecom, Inc , Allegiance Telecom Company Worldwide, certain subsidiaries of Allegiance Telecom, Inc , various lenders, Goldman Sachs Credit Partners L P , as Syndication Agent and Sole Lead Arranger, General Electric Capital Corporation (as successor in interest to Toronto Dominion (Texas), Inc ), as Administrative Agent, and BankBoston, N A and Morgan Stanley Senior Funding, Inc , as Co-Documentation Agents (incorporated herein by reference to Exhibit 99 2 to Allegiance Telecom, Inc 's Form 8-K filed with the SEC on November 27, 2002)
10 32	Integrated Network Solution Purchase Agreement, between Allegiance Telecom Company Worldwide and Genurty Solutions Inc , dated July 24, 2000, as amended by Amendment One to Integrated Network Solution Purchase Agreement dated September 29, 2000, Amendment Two to Integrated Network Solution Purchase Agreement dated December 29, 2000 and Amendment Three to Integrated Network Solution Purchase Agreement dated December 31, 2001
10 33	Amendment Four to Integrated Network Solution Purchase Agreement dated August 21, 2002 (incorporated herein by reference to Exhibit 10 1 to Allegiance Telecom, Inc 's Form 10-Q for the period ended September 30, 2002)
*11 1	Statement Regarding Computation of Per Share Earnings (Loss) for the year ended December 31, 2002
*11 2	Statement Regarding Computation of Per Share Earnings (Loss) for the year ended December 31, 2001

EXHIBIT NO	DESCRIPTION
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*11 3	Statement Regarding Computation of Per Share Earnings (Loss) for the year ended December 31, 2000
*21 1	Subsidiaries of Allegiance Telecom, Inc
*23 1	Consent of KPMG LLP
*24 1	Power of Attorney (included in the signature page to this report)
*99 1	Section 902 Certification
*99 2	Section 902 Certification

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\* Filed in this Form 10-K

+ Management contract or compensatory plan or arrangement